

CITY OF STORY CITY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004



Table of Contents

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditors' Report | | 5-6 |
| Management's Discussion and Analysis | | 7-11 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Statement of Activities and Net Assets – Cash Basis | A | 14-15 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 16-17 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 19 |
| Notes to Financial Statements | | 20-28 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 30-31 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 32 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds | 1 | 34-35 |
| Schedule of Indebtedness | 2 | 36-37 |
| Note Maturities | 3 | 38 |
| Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds | 4 | 39 |
| Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting | | 41-42 |
| Schedule of Findings | | 43-47 |

City of Story City

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------|----------------|---------------------|
| (Before January 2004) | | |
| Kenneth Peterson | Mayor | Jan 2006 |
| Michael Jensen | Mayor Pro tem | Jan 2004 |
| Barbara Frohling | Council Member | Jan 2004 |
| Lois Heckert | Council Member | Jan 2004 |
| Dave Sporleder | Council Member | Jan 2006 |
| Jeffrey Crisman | Council Member | Jan 2006 |
| Mark Jackson | Administrator | Indefinite |
| Pat Twedt | Clerk | Jan 2004 |
| Dena Nichols | Treasurer | Jan 2004 |
| Fred A. Larson | Attorney | Jan 2004 |
| (After January 2004) | | |
| Kenneth Peterson | Mayor | Jan 2006 |
| Michael Jensen | Mayor Pro tem | Jan 2008 |
| Barbara Frohling | Council Member | Jan 2008 |
| Lois Heckert | Council Member | Jan 2008 |
| Dave Sporleder | Council Member | Jan 2006 |
| Jeffrey Crisman | Council Member | Jan 2006 |
| Mark Jackson | Administrator | Indefinite |
| Pat Twedt | Clerk | Jan 2006 |
| Dena Nichols | Treasurer | Jan 2006 |
| Fred A. Larson | Attorney | Jan 2006 |

City of Story City

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Story City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separated entities are referred to as component units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. However, the primary government financial statements, because they do not include the financial data of the component unit of the City of Story City, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Story City as of and for the year ended June 30, 2004 on the basis of accounting described in note 1.

As described in Note 17, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2004 on our consideration of the City of Story City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Story City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 15, 2004
Ames, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Story City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 3.3%, or approximately \$121,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$63,000 and note proceeds increased \$87,000.
- Disbursements decreased 4.9%, or approximately \$199,000, in fiscal 2004 from fiscal 2003. Community and economic development decreased by approximately \$183,000 and debt service decreased approximately \$112,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and golf course funds. The water and sewer funds are considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2.571 million to \$3.451 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities | |
|--|-----------------------------|
| (Expressed in Thousands) | |
| | Year ended June 30, 2004 |
| Receipts and transfers: | |
| Program receipts: | |
| Charges for service | \$ 166 |
| Operating grants, contributions and restricted interest | 387 |
| General receipts: | |
| Property tax | 1,897 |
| Local option sales tax | 334 |
| Grants and contributions not restricted to specific purposes | 12 |
| Unrestricted investment earnings | 29 |
| Note proceeds less repaid anticipatory warrants | 899 |
| Other general receipts | 109 |
| Transfers, net | 124 |
| Total receipts and transfers | <u>3,957</u> |
| Disbursements: | |
| Public safety | 411 |
| Public works | 350 |
| Health and social services | 1 |
| Culture and recreation | 353 |
| Community and economic development | 266 |
| General government | 361 |
| Debt service | 522 |
| Capital projects | 814 |
| Total disbursements | <u>3,078</u> |
| Increase in cash basis net assets | 879 |
| Cash basis net assets beginning of year | <u>2,572</u> |
| Cash basis net assets end of year | <u>\$ 3,451</u> |

The City's total receipts for governmental activities increased by 21%, or \$696,000. The total cost of all programs and services decreased by approximately \$285,000, or 8.5%, with no new programs added this year.

The cost of all governmental activities this year was \$3.078 million compared to \$3.363 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was \$2.524 million because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | |
|--|-----------------------------|
| | Year ended June 30, 2004 |
| Receipts: | |
| Program receipts: | |
| Charges for service: | |
| Water | \$ 257 |
| Sewer | 311 |
| Golf Course | 237 |
| Capital grants, contributions and restricted interest | - |
| General receipts: | |
| Unrestricted interest on investments | 5 |
| Other general receipts | 5 |
| Total receipts | <u>815</u> |
| Disbursements and transfers: | |
| Water | 301 |
| Sewer | 242 |
| Golf Course | 238 |
| Transfers | 124 |
| Total disbursements and transfers | <u>905</u> |
| Decrease in cash balance | (90) |
| Cash basis net assets beginning of year | <u>891</u> |
| Cash basis net assets end of year | <u>\$ 801</u> |

Total business type activities receipts for the fiscal year were \$815 thousand compared to \$809 thousand last year, representing only a minor increase over the prior year. The cash balance decreased by approximately \$90,000 from the prior year mostly because of transfers out to the governmental activity funds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Story City completed the year, its governmental funds reported a combined fund balance of \$3,451,489, an increase of almost \$880,000 above last year's total of \$2,571,549. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Special Revenue Fund cash balance increased approximately \$550,000 from the prior year to \$1,486,898. Approximately \$200,000 of this increase was due to a reduction in community and economic development disbursements in the Urban Renewal Tax Increment Financing fund. Also, transfers into the Hospital Trust Fund accounted for over \$300,000 in receipts.

- The Capital Projects Funds cash balance increased by \$322,314 from 2003. The increase was primarily due to the note proceeds received, which were \$1,356,588. The proceeds will be used to finance the Well Project, which is considered to be a major fund of the City.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$35,808 to \$274,826, due primarily to water main replacement and installation.
- The Sewer Fund cash balance decreased by \$53,685 to \$501,719, due primarily to a transfer out to the Waterworks Screening Capital Projects Fund to assist with the funding for the new project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on April 5, 2004 and resulted in an increase in operating disbursements of \$820,900. It was increased to reflect the repayment of anticipatory warrants issued in the prior year, to fund the screening project at the wastewater treatment plant, to purchase fire equipment, and to cover the costs for damages caused by a storm that occurred during the fiscal year.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$3,990,000 in outstanding notes, compared to \$3,420,000 last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|----------|-------|
| | June 30, | |
| | 2004 | 2003 |
| General obligation notes | \$ 3,990 | 2,970 |
| Anticipatory notes | - | 450 |
| Total | \$ 3,990 | 3,420 |

Debt increased as a result of issuing general obligation bonds for a well project. In addition, the City paid off the anticipatory notes they had issued in the 2003 fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Story City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities.

Although the City's total valuation increased by approximately \$1.8 million, the "taxable" valuation decreased by \$2.5 million. In addition, the elimination of approximately \$50,000 in State Shared Revenues has made this an extremely difficult budget year.

Although there are a number of short-term budget issues, there are a number of positive developments taking place including the construction of the Comfort Inn Hotel, Story City Herald, and new Ackley State Bank. In addition, over the last two fiscal years, 20 new homes have been built with an average value of \$187,710.

Nevertheless, the City has proceeded cautiously during these uncertain times by continuing to plan, prioritize, and prudently manage its resources. Given this set of conditions the total tax levy rate increased from \$8.35 to \$8.79. Since Fiscal Year 1993-94, the City total tax rate has fluctuated between \$8.14 and \$8.79. This is still one of the lowest tax levy rates for a community of comparable size in the State.

GENERAL FUND – The General Fund Budget is recommended at \$1,122,610. This represents an increase of \$8,725 or .7 percent from the FY 2003-04 Budget.

ROAD USE FUND – The Road Use Fund Budget is recommended at \$268,000. This represents a decrease of \$5,935 or 2.1 percent from FY 2003-04 Budget.

TAX INCREMENT FINANCING FUND – The Tax Increment Financing Fund is recommended at \$953,941. This represents a decrease of \$165,689 or 15 percent from the FY 2003-04 Budget.

DEBT SERVICE FUND – The proposed Debt Service Fund is recommended at \$638,929. This represents an increase of \$117,803 or 23 percent from the FY 2003-04 Budget. The increase in the Debt Service Fund Budget is due to the following: 1) Three bonds were paid off in FY 2002-03, 2) The issuance of new bonds for the Well Project, and 3) An “internal debt” in the amount of \$20,000 for general capital project and equipment needs.

ENTERPRISE FUNDS –

Water Fund – The Water Fund is recommended at \$267,000. This represents an increase of \$44,130 or 1.5 percent from the FY 2003-04 Budget.

Wastewater Budget – The Wastewater Budget is recommended at \$300,000. This represents an increase of \$5,670 or 1.9 percent from the FY 2003-04 Budget.

Golf Course Fund – The Golf Course Budget is recommended at \$239,820. This represents an increase of \$9,870 or 4.3 percent from the FY 2003-04 Budget.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dena Nichols, City Treasurer, 504 Broad Street, Story City, Iowa.

City of Story City

Basic Financial Statements

City of Story City

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

| | Disbursements | Program Receipts | | |
|---|---------------------|---------------------|--|---|
| | | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions / Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 410,974 | 12,021 | 53,657 | - |
| Public works | 349,452 | 56,223 | 268,852 | - |
| Health and social services | 971 | - | - | - |
| Culture and recreation | 353,434 | 58,011 | 24,103 | - |
| Community and economic development | 265,810 | 500 | 31,711 | - |
| General government | 361,520 | 14,042 | 8,786 | - |
| Debt service | 521,850 | - | - | - |
| Capital projects | 813,526 | 25,132 | - | - |
| Total governmental activities | 3,077,537 | 165,929 | 387,109 | - |
| Business type activities: | | | | |
| Water | 300,915 | 257,062 | - | - |
| Sewer | 241,628 | 310,740 | - | - |
| Golf Course | 237,531 | 236,775 | - | - |
| Total business type activities | 780,074 | 804,577 | - | - |
| Total | \$ 3,857,611 | 970,506 | 387,109 | - |
| General Receipts: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Tax increment financing | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Mobile home tax | | | | |
| Hotel/motel tax | | | | |
| Utility franchise tax | | | | |
| Cable television | | | | |
| Grants and contributions not restricted to specific purpose | | | | |
| Unrestricted interest on investments | | | | |
| Rent | | | | |
| Note proceeds | | | | |
| Anticipatory warrants principal/interest | | | | |
| Miscellaneous | | | | |
| Sale of assets | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Streets | | | | |
| Urban renewal purposes | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|-----------------------------|--------------------|
| (345,296) | - | (345,296) |
| (24,377) | - | (24,377) |
| (971) | - | (971) |
| (271,320) | - | (271,320) |
| (233,599) | - | (233,599) |
| (338,692) | - | (338,692) |
| (521,850) | - | (521,850) |
| (788,394) | - | - |
| <u>(2,524,499)</u> | <u>-</u> | <u>(2,524,499)</u> |
| - | (43,853) | (43,853) |
| - | 69,112 | 69,112 |
| - | (756) | (756) |
| <u>-</u> | <u>24,503</u> | <u>24,503</u> |
| <u>(2,524,499)</u> | <u>24,503</u> | <u>(2,499,996)</u> |

| | | |
|---------------------|------------------|------------------|
| 509,289 | - | 509,289 |
| 1,229,827 | - | 1,229,827 |
| 157,878 | - | 157,878 |
| 333,803 | - | 333,803 |
| 2,112 | - | 2,112 |
| 51,267 | - | 51,267 |
| 2,805 | - | 2,805 |
| 18,383 | - | 18,383 |
| 12,484 | - | 12,484 |
| 28,995 | 4,558 | 33,553 |
| 19,012 | 5,000 | 24,012 |
| 1,356,588 | - | 1,356,588 |
| (457,875) | - | (457,875) |
| 13,855 | - | 13,855 |
| 1,821 | - | 1,821 |
| 124,195 | (124,195) | - |
| <u>3,404,439</u> | <u>(114,637)</u> | <u>3,289,802</u> |
| 879,940 | (90,134) | 789,806 |
| <u>2,571,549</u> | <u>891,067</u> | <u>3,462,616</u> |
| <u>\$ 3,451,489</u> | <u>800,933</u> | <u>4,252,422</u> |

| | | |
|---------------------|----------------|------------------|
| \$ 135,459 | - | 135,459 |
| 569,278 | - | 569,278 |
| 274,221 | - | 274,221 |
| 1,380,462 | 193,474 | 1,573,936 |
| 1,092,069 | 607,459 | 1,699,528 |
| <u>\$ 3,451,489</u> | <u>800,933</u> | <u>4,252,422</u> |

City of Story City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

| | Special Revenue | | | Debt Service |
|--|-----------------|-----------------------------------|-------------------|------------------------|
| | General | Urban Renewal Tax Increment | Hospital Trust | General Obligations |
| Receipts: | | | | |
| Property tax | \$ 509,289 | - | - | 157,878 |
| Tax increment financing collections | - | 1,229,827 | - | - |
| Other city tax | 407,561 | - | - | 809 |
| Licenses and permits | 14,042 | - | - | - |
| Use of money and property | 26,864 | 6,198 | 1,022 | 3,309 |
| Intergovernmental | 81,754 | - | - | - |
| Charges for service | 119,356 | - | - | - |
| Special assessments | - | - | - | - |
| Miscellaneous | 28,089 | 13,009 | - | - |
| Total receipts | 1,186,955 | 1,249,034 | 1,022 | 161,996 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 410,974 | - | - | - |
| Public works | 67,939 | - | - | - |
| Health and social services | - | - | 971 | - |
| Culture and recreation | 352,284 | - | - | - |
| Community and economic development | 30,200 | 235,610 | - | - |
| General government | 334,901 | - | - | - |
| Debt service | - | - | - | 521,850 |
| Capital projects | - | - | - | - |
| Total disbursements | 1,196,298 | 235,610 | 971 | 521,850 |
| Excess (deficiency) of receipts over (under) disbursements | (9,343) | 1,013,424 | 51 | (359,854) |
| Other financing sources (uses): | | | | |
| Bond proceeds | - | - | - | - |
| Anticipatory notes redeemed | - | - | - | - |
| Interest on anticipatory warrants | - | - | - | - |
| Sale of capital assets | 1,821 | - | - | - |
| Operating transfers in | 26,213 | 777 | 311,809 | 360,259 |
| Operating transfers out | (15,000) | (698,434) | (54,645) | - |
| Total other financing sources (uses) | 13,034 | (697,657) | 257,164 | 360,259 |
| Net change in cash balances | 3,691 | 315,767 | 257,215 | 405 |
| Cash balances beginning of year | 492,786 | 253,511 | 311,757 | 273,038 |
| Cash balances end of year | \$ 496,477 | 569,278 | 568,972 | 273,443 |
| Cash Basis Fund Balances | | | | |
| Reserved: | | | | |
| Debt service | \$ - | - | - | 273,443 |
| Unreserved: | | | | |
| General fund | 496,477 | - | - | - |
| Special revenue funds | - | 569,278 | 568,972 | - |
| Capital projects fund | - | - | - | - |
| Permanent fund | - | - | - | - |
| Debt service | - | - | - | - |
| Total cash basis fund balances | \$ 496,477 | 569,278 | 568,972 | 273,443 |

See notes to financial statements.

| Capital Projects | | Other | Total |
|-----------------------|-----------------|------------------------------------|-----------|
| Downtown Sidewalks | Well Project | Non major Governmental Funds | |
| - | - | - | 667,167 |
| - | - | - | 1,229,827 |
| - | - | - | 408,370 |
| - | - | - | 14,042 |
| 948 | 6,062 | 12,871 | 57,274 |
| - | - | 269,852 | 351,606 |
| - | - | - | 119,356 |
| - | - | 25,132 | 25,132 |
| 58 | - | 18,818 | 59,974 |
| 1,006 | 6,062 | 326,673 | 2,932,748 |
| - | - | - | 410,974 |
| - | - | 281,513 | 349,452 |
| - | - | - | 971 |
| - | - | 1,150 | 353,434 |
| - | - | - | 265,810 |
| - | - | 26,619 | 361,520 |
| - | - | - | 521,850 |
| 342,003 | 287,317 | 184,206 | 813,526 |
| 342,003 | 287,317 | 493,488 | 3,077,537 |
| (340,997) | (281,255) | (166,815) | (144,789) |
| - | 1,356,588 | - | 1,356,588 |
| - | (450,000) | - | (450,000) |
| - | (7,875) | - | (7,875) |
| - | - | - | 1,821 |
| - | - | 225,670 | 924,728 |
| - | - | (32,454) | (800,533) |
| - | 898,713 | 193,216 | 1,024,729 |
| (340,997) | 617,458 | 26,401 | 879,940 |
| 343,363 | 416,231 | 480,863 | 2,571,549 |
| 2,366 | 1,033,689 | 507,264 | 3,451,489 |
| - | - | - | 273,443 |
| - | - | - | 496,477 |
| - | - | 348,648 | 1,486,898 |
| 2,366 | 1,033,689 | 107,479 | 1,143,534 |
| - | - | 50,359 | 50,359 |
| - | - | 778 | 778 |
| 2,366 | 1,033,689 | 507,264 | 3,451,489 |

City of Story City

City of Story City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

| | Enterprise Funds | | | Total |
|--|------------------|-----------|-------------|-----------|
| | Water | Sewer | Golf Course | |
| Operating receipts: | | | | |
| Use of money and property | \$ 8,045 | 1,398 | 115 | 9,558 |
| Charges for service | 257,062 | 310,740 | 236,775 | 804,577 |
| Total operating receipts | 265,107 | 312,138 | 236,890 | 814,135 |
| Operating disbursements: | | | | |
| Business type activities | 300,915 | 241,628 | 237,531 | 780,074 |
| Total operating disbursements | 300,915 | 241,628 | 237,531 | 780,074 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (35,808) | 70,510 | (641) | 34,061 |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | 46,230 | - | 46,230 |
| Operating transfers out | - | (170,425) | - | (170,425) |
| Total other financing sources (uses) | - | (124,195) | - | (124,195) |
| Net change in cash balances | (35,808) | (53,685) | (641) | (90,134) |
| Cash balances beginning of year | 310,634 | 555,404 | 25,029 | 891,067 |
| Cash balances end of year | \$ 274,826 | 501,719 | 24,388 | 800,933 |
| Cash Basis Fund Balances | | | | |
| Reserved for maintenance/replacement | \$ 34,238 | 159,236 | - | 193,474 |
| Unreserved | 240,588 | 342,483 | 24,388 | 607,459 |
| Total cash basis fund balances | \$ 274,826 | 501,719 | 24,388 | 800,933 |

See notes to financial statements.

City of Story City

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Story City is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Story City has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Story City Municipal Electric Utility. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Story City (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The Story City Municipal Electric Utility is a component unit of the City of Story City and is not presented in these primary government financial statements. They are legally separate from the City, but are financially accountable to the City. The Story City Municipal Electric Utility (Utility) was established to operate the City's electric facilities. The Utility is governed by a three member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Utility is held in the name of the City. A financial benefit/burden relationship exists between the City and the Utility in that the

City is authorized by statute to issue general obligation debt for a city utility, and may certify taxes for the payment of the debt.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Main Street Program, Central Iowa Regional Transportation Planning Alliance Board, Central Iowa Regional Housing Authority, Story City Chamber of Commerce Board, Trees Forever Board, and the League of Cities.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are

paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Hospital Trust Fund is used for internal loan purposes. To date, it has been used for TIF related projects.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Downtown Sidewalks Fund is used to account for construction on the downtown sidewalks.

The Well Project Fund is used to account for construction on the well project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Golf Course Fund accounts for the operation and maintenance of the City's golf course.

C. Measurement Focus and Basis of Accounting

The City of Story City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, general government and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

| Type | Carrying Amount | Fair Value |
|----------------------------|-------------------|----------------|
| U.S. government securities | <u>\$ 938,180</u> | <u>938,180</u> |

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

| Year Ending June 30, | General Obligation Notes | |
|-------------------------|--------------------------|----------------|
| | Principal | Interest |
| 2005 | \$ 475,000 | 166,055 |
| 2006 | 730,000 | 143,330 |
| 2007 | 750,000 | 116,845 |
| 2008 | 780,000 | 87,397 |
| 2009 | 820,000 | 54,915 |
| 2010 - 2013 | 435,000 | 40,872 |
| Total | <u>\$ 3,990,000</u> | <u>609,414</u> |

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available

financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$52,556, \$54,383 and \$48,308, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. A portion of sick leave is payable upon termination of employment if the employee quits or retires after at least ten years of continuous service. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 41,550 |
| Sick leave | <u>26,230</u> |
| Total | <u>\$ 67,780</u> |

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

The City issued \$450,000 in anticipatory warrants during the previous fiscal year, at 2.00% interest per annum, for water improvements. As of June 30, 2004, the entire balance of the anticipatory warrants had been redeemed.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| Transfer to | Transfer from | Amount |
|-----------------------------|-----------------------------|--------------------------|
| General | Capital Projects: | |
| | Grove Street Shelter | \$ 238 |
| | Enterprise: | |
| | Sewer | 25,000 |
| | Permanent: | |
| | Cemetery Perpetual Care | 975 |
| | | <u>26,213</u> |
| Special Revenue: | Debt Service: | |
| Urban Renewal Tax Increment | Special Assessments | 777 |
| Hospital Trust | Special Revenue: | |
| | Urban Renewal Tax Increment | 294,270 |
| | Debt Service: | |
| | Special Assessments | 17,539 |
| Equipment Replacement | Special Revenue: | |
| | Road Use Tax | 5,529 |
| | | <u>318,115</u> |
| Debt Service: | Special Revenue: | |
| General Obligations | Urban Renewal Tax Increment | 353,443 |
| | Debt Service: | |
| | Special Assessments | 6,816 |
| | | <u>360,259</u> |
| Capital Projects: | General | 15,000 |
| Trees Forever | Enterprise: | |
| Reed Bed/Roosevelt | Sewer | 1,225 |
| Housing Assistance | Special Revenue: | |
| | Urban Renewal Tax Increment | 66 |
| | Housing Rehabilitation | 580 |
| Timberland Drive Extension | Special Revenue: | |
| Waterworks screening | Urban Renewal Tax Increment | 4,425 |
| Jacobson Trail | Enterprise: | |
| | Sewer | 144,200 |
| | Special Revenue: | |
| | Hospital Trust | 54,645 |
| | | <u>220,141</u> |
| Enterprise: | Special Revenue: | |
| Sewer | Urban Renewal Tax Increment | 46,230 |
| Total | | <u><u>\$ 970,958</u></u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Notes Receivable/Economic Development

The City approved a \$25,000 loan to Cottage on Broad, Inc. in March of 2002. The loan is payable in four years from the loan date with an interest rate of 2.38% per year. Interest is payable monthly at \$50 and the principal starts in years two thru four of the loan where the monthly principal and interest payments increase to \$720 per month.

The City approved a \$47,854 loan to Record Printing Co., Inc. in October of 2002. The principal and interest on the loan are due and payable on October 13, 2007. The interest rate is 2.38% per year.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,000 during the year ended June 30, 2004.

(10) Assisted Living Facility Revenue Bonds

The City has issued a total of \$8,500,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$8,159,359 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the revenues of the Assisted Living Facility, and the bond principal and interest do not constitute liabilities of the City.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Landfill

The City has contracted with the City of Ames for solid waste disposal for all households or residences within the City. The contract began April 1, 1994 and will terminate June 30, 2014. The cost is computed for each calendar year. On or before February 15th of each year, the City of Ames will notify the City of Story City of its proportionate share of the net costs of the system for the prior calendar year. The City of Story City will pay the City of Ames one-half of its share on July 15th and one-half on or before December 15th of each year. The annual rate of the contract is determined by multiplying the net per capita cost of the Ames solid waste disposal system by the population of the City of Story City. During the year ended June 30, 2004, the City paid a total of \$37,929 to the City of Ames in connection with this contract.

(13) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the Culture and

Recreation, General Government, and Business Type Activities functions exceeded the amounts budgeted.

(14) Deficit Fund Balance

The Capital Projects, Jacobson Trail Fund had a deficit balance of \$53,719 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated by a grant in the next fiscal year.

(15) Subsequent Event

In July 2004, the City issued a check for \$200,000 to Pella Corporation which is the final payment for the Development Agreement in regards to the land acquisition.

(16) Note Guarantee

The City is a guarantor on a note from a local bank to the Story City Development Corporation (SCDC). SCDC purchased a building in Story City for \$200,000. The City is making all the payments on the note as a grant to the SCDC. The City has also paid the property taxes, insurance, and utilities on the building and will be reimbursed for these out-of-pocket expenses plus up to \$50,000 of the net profit of the sale.

(17) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

(18) Construction Commitments

The City had the following commitments with respect to unfinished capital projects at June 30, 2004:

| <u>Project</u> | <u>Remaining Commitment</u> |
|-------------------------------------|-----------------------------|
| New Well | \$ 61,329 |
| Wastewater Improvement | 118,673 |
| Pennsylvania Avenue | 28,144 |
| Water System Improvements (June 03) | 8,293 |
| Pump House Aerator | 14,682 |
| Jacobson Park Trail | 45,364 |
| Water System Improvements (Oct 03) | 7,140 |

Required Supplementary Information

City of Story City
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

| | Governmental Funds Actual | Proprietary Funds Actual |
|---|---------------------------------|--------------------------------|
| Receipts: | | |
| Property tax | \$ 667,167 | - |
| Tax increment financing collections | 1,229,827 | - |
| Other city tax | 408,370 | - |
| Licenses and permits | 14,042 | - |
| Use of money and property | 57,274 | 9,558 |
| Intergovernmental | 351,606 | - |
| Charges for service | 119,356 | 804,577 |
| Special assessments | 25,132 | - |
| Miscellaneous | 59,974 | - |
| Total receipts | <u>2,932,748</u> | <u>814,135</u> |
| Disbursements: | | |
| Public safety | 410,974 | - |
| Public works | 349,452 | - |
| Health and social services | 971 | - |
| Culture and recreation | 353,434 | - |
| Community and economic development | 265,810 | - |
| General government | 361,520 | - |
| Debt service | 521,850 | - |
| Capital projects | 813,526 | - |
| Business type activities | - | 780,074 |
| Total disbursements | <u>3,077,537</u> | <u>780,074</u> |
| Excess (deficiency) of receipts over (under) disbursements | (144,789) | 34,061 |
| Other financing sources (uses), net | <u>1,024,729</u> | <u>(124,195)</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 879,940 | (90,134) |
| Balances beginning of year | <u>2,571,549</u> | <u>891,067</u> |
| Balances end of year | <u>\$ 3,451,489</u> | <u>800,933</u> |

See accompanying independent auditors' report.

| Net | Budgeted Amounts | | Final to Net Variance |
|-------------------------|-------------------------|-------------------------|-----------------------------|
| | Original | Final | |
| 667,167 | 630,452 | 640,452 | 26,715 |
| 1,229,827 | 1,114,630 | 1,114,630 | 115,197 |
| 408,370 | 344,946 | 414,946 | (6,576) |
| 14,042 | 12,575 | 12,575 | 1,467 |
| 66,832 | 73,650 | 73,650 | (6,818) |
| 351,606 | 396,545 | 411,145 | (59,539) |
| 923,933 | 870,400 | 895,400 | 28,533 |
| 25,132 | 10,000 | 10,000 | 15,132 |
| 59,974 | 62,220 | 62,220 | (2,246) |
| <u>3,746,883</u> | <u>3,515,418</u> | <u>3,635,018</u> | <u>111,865</u> |
| 410,974 | 358,195 | 418,195 | 7,221 |
| 349,452 | 386,605 | 386,605 | 37,153 |
| 971 | 20,210 | 20,210 | 19,239 |
| 353,434 | 313,950 | 345,950 | (7,484) |
| 265,810 | 569,307 | 574,307 | 308,497 |
| 361,520 | 278,460 | 278,460 | (83,060) |
| 521,850 | 521,126 | 976,126 | 454,276 |
| 813,526 | 807,370 | 1,064,270 | 250,744 |
| 780,074 | 762,150 | 774,150 | (5,924) |
| <u>3,857,611</u> | <u>4,017,373</u> | <u>4,838,273</u> | <u>980,662</u> |
| (110,728) | (501,955) | (1,203,255) | 1,092,527 |
| <u>900,534</u> | <u>355,000</u> | <u>417,000</u> | <u>483,534</u> |
| 789,806 | (146,955) | (786,255) | 1,576,061 |
| <u>3,462,616</u> | <u>2,969,177</u> | <u>3,462,616</u> | <u>-</u> |
| <u><u>4,252,422</u></u> | <u><u>2,822,222</u></u> | <u><u>2,676,361</u></u> | <u><u>1,576,061</u></u> |

City of Story City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$119,600 and \$820,900, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and business type activities functions.

Other Supplementary Information

City of Story City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

| | Special Revenue | | | | | |
|---|-------------------------------|----------|----------------|---------|-------------|-------------|
| | Economic | Road Use | Housing | Library | Equipment | Golf Course |
| | Development Revolving Loan | Tax | Rehabilitation | Gift | Replacement | Trust |
| Receipts: | | | | | | |
| Use of money and property | \$ 11,043 | - | 4 | 137 | 619 | 55 |
| Intergovernmental | - | 268,852 | - | - | - | - |
| Special assessments | - | - | - | - | - | - |
| Miscellaneous | - | - | - | 795 | - | 7,695 |
| Total receipts | 11,043 | 268,852 | 4 | 932 | 619 | 7,750 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public works | - | 281,513 | - | - | - | - |
| Culture and recreation | - | - | - | 1,150 | - | - |
| General government | - | - | - | - | 26,619 | - |
| Capital projects | - | - | - | - | - | - |
| Total disbursements | - | 281,513 | - | 1,150 | 26,619 | - |
| Excess (deficiency) of receipts over (under) disbursements | 11,043 | (12,661) | 4 | (218) | (26,000) | 7,750 |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | - | - | - | - | 5,529 | - |
| Operating transfers out | - | (5,529) | (580) | - | - | - |
| Total other financing sources (uses): | - | (5,529) | (580) | - | 5,529 | - |
| Net change in cash balances | 11,043 | (18,190) | (576) | (218) | (20,471) | 7,750 |
| Cash balances beginning of year | 108,946 | 153,649 | 576 | 15,054 | 87,051 | 4,034 |
| Cash balances end of year | \$ 119,989 | 135,459 | - | 14,836 | 66,580 | 11,784 |
| Cash Basis Fund Balances | | | | | | |
| Unreserved: | | | | | | |
| Special revenue funds | \$ 119,989 | 135,459 | - | 14,836 | 66,580 | 11,784 |
| Debt service fund | - | - | - | - | - | - |
| Capital projects funds | - | - | - | - | - | - |
| Permanent fund | - | - | - | - | - | - |
| Total cash basis fund balances | \$ 119,989 | 135,459 | - | 14,836 | 66,580 | 11,784 |

See accompanying independent auditors' report.

| Debt Service | Capital Projects | | | | | | | Permanent Cemetery Perpetual Care | Total |
|--------------|---------------------|---------------|----------------------|----------------------|--------------------|--------------------|----------------|-----------------------------------|-----------|
| | Special Assessments | Trees Forever | Grove Street Shelter | Waterworks Screening | Reed Bed/Roosevelt | Housing Assistance | Jacobson Trail | | |
| 136 | 16 | - | 189 | - | 364 | 55 | 6 | 247 | 12,871 |
| - | 1,000 | - | - | - | - | - | - | - | 269,852 |
| 25,132 | - | - | - | - | - | - | - | - | 25,132 |
| - | 8,426 | 100 | - | - | - | - | - | 1,802 | 18,818 |
| 25,268 | 9,442 | 100 | 189 | - | 364 | 55 | 6 | 2,049 | 326,673 |
| - | - | - | - | - | - | - | - | - | 281,513 |
| - | - | - | - | - | - | - | - | - | 1,150 |
| - | - | - | - | - | - | - | - | - | 26,619 |
| - | 28,898 | - | 14,774 | - | 13,570 | 120,049 | 6,915 | - | 184,206 |
| - | 28,898 | - | 14,774 | - | 13,570 | 120,049 | 6,915 | - | 493,488 |
| 25,268 | (19,456) | 100 | (14,585) | - | (13,206) | (119,994) | (6,909) | 2,049 | (166,815) |
| - | 15,000 | - | 144,200 | 1,225 | 646 | 54,645 | 4,425 | - | 225,670 |
| (25,132) | - | (238) | - | - | - | - | - | (975) | (32,454) |
| (25,132) | 15,000 | (238) | 144,200 | 1,225 | 646 | 54,645 | 4,425 | (975) | 193,216 |
| 136 | (4,456) | (138) | 129,615 | 1,225 | (12,560) | (65,349) | (2,484) | 1,074 | 26,401 |
| 642 | 7,191 | 138 | - | (1,225) | 41,408 | 11,630 | 2,484 | 49,285 | 480,863 |
| 778 | 2,735 | - | 129,615 | - | 28,848 | (53,719) | - | 50,359 | 507,264 |
| - | - | - | - | - | - | - | - | - | 348,648 |
| 778 | - | - | - | - | - | - | - | - | 778 |
| - | 2,735 | - | 129,615 | - | 28,848 | (53,719) | - | - | 107,479 |
| - | - | - | - | - | - | - | - | 50,359 | 50,359 |
| 778 | 2,735 | - | 129,615 | - | 28,848 | (53,719) | - | 50,359 | 507,264 |

City of Story City
 Schedule of Indebtedness
 Year ended June 30, 2004

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|-----------------------------|---------------|----------------|--------------------------|
| General obligation notes: | | | |
| Corporate purpose | Mar 1, 1996 | 4.05-5.20% | \$ 2,480,000 |
| Corporate purpose | Oct. 1, 1997 | 6.85-7.50% | 650,000 |
| Corporate purpose | Apr. 1, 2001 | 4.00-4.80% | 775,000 |
| Corporate purpose | Jan. 1, 2003 | 2.15-4.45% | 550,000 |
| Water improvement refunding | Mar. 1, 2004 | 1.45-2.85% | 1,385,000 |
| Total | | | |

See accompanying independent auditors' report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| 1,325,000 | - | 195,000 | 1,130,000 | 66,005 | - |
| 440,000 | - | 60,000 | 380,000 | 32,438 | - |
| 655,000 | - | 70,000 | 585,000 | 29,717 | - |
| 550,000 | - | 40,000 | 510,000 | 27,965 | - |
| - | 1,385,000 | - | 1,385,000 | - | - |
| \$2,970,000 | 1,385,000 | 365,000 | 3,990,000 | 156,125 | - |

City of Story City

Note Maturities

June 30, 2004

| Year Ending June 30, | General Obligation Notes | | | | | |
|----------------------------|---|---------------------|---|-------------------|---|-------------------|
| | Corporate Purpose Issued Mar 1, 1996 | | Corporate Purpose Issued Oct 1, 1997 | | Corporate Purpose Issued Apr 1, 2001 | |
| | Interest | | Interest | | Interest | |
| | Rates | Amount | Rates | Amount | Rates | Amount |
| 2005 | 4.80% | \$ 205,000 | 7.25% | \$ 65,000 | 4.30% | \$ 75,000 |
| 2006 | 4.90 | 215,000 | 7.35 | 70,000 | 4.40 | 75,000 |
| 2007 | 5.05 | 225,000 | 7.40 | 75,000 | 4.50 | 80,000 |
| 2008 | 5.15 | 235,000 | 7.45 | 80,000 | 4.60 | 85,000 |
| 2009 | 5.20 | 250,000 | 7.50 | 90,000 | 4.65 | 85,000 |
| 2010 | | - | | - | 4.70 | 90,000 |
| 2011 | | - | | - | 4.80 | 95,000 |
| 2012 | | - | | - | | - |
| 2013 | | - | | - | | - |
| Total | | <u>\$ 1,130,000</u> | | <u>\$ 380,000</u> | | <u>\$ 585,000</u> |

| Year Ending June 30, | Corporate Purpose Issued Jan 1, 2003 | | Water Improvement Refunding Issued Mar 1, 2004 | | Total |
|----------------------------|---|-------------------|---|---------------------|---------------------|
| | Interest | | Interest | | |
| | Rates | Amount | Rates | Amount | |
| 2005 | 2.50% | \$ 50,000 | 1.45% | \$ 80,000 | \$ 475,000 |
| 2006 | 2.85 | 50,000 | 1.90 | 320,000 | 730,000 |
| 2007 | 3.15 | 50,000 | 2.30 | 320,000 | 750,000 |
| 2008 | 3.45 | 55,000 | 2.65 | 325,000 | 780,000 |
| 2009 | 3.75 | 55,000 | 2.85 | 340,000 | 820,000 |
| 2010 | 4.05 | 60,000 | | - | 150,000 |
| 2011 | 4.20 | 60,000 | | - | 155,000 |
| 2012 | 4.35 | 65,000 | | - | 65,000 |
| 2013 | 4.45 | 65,000 | | - | 65,000 |
| Total | | <u>\$ 510,000</u> | | <u>\$ 1,385,000</u> | <u>\$ 3,990,000</u> |

See accompanying independent auditors' report.

City of Story City

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Year

| | <u>2004</u> |
|-------------------------------------|---------------------|
| Receipts: | |
| Property tax | \$ 667,167 |
| Tax increment financing collections | 1,229,827 |
| Other city tax | 408,370 |
| Licenses and permits | 14,042 |
| Use of money and property | 57,274 |
| Intergovernmental | 351,606 |
| Charges for service | 119,356 |
| Special assessments | 25,132 |
| Miscellaneous | <u>59,974</u> |
| Total | <u>\$ 2,932,748</u> |
| Disbursements: | |
| Operating: | |
| Public safety | \$ 410,974 |
| Public works | 349,452 |
| Health and social services | 971 |
| Culture and recreation | 353,434 |
| Community and economic development | 265,810 |
| General government | 361,520 |
| Debt service | 521,850 |
| Capital projects | <u>813,526</u> |
| Total | <u>\$ 3,077,537</u> |

See accompanying independent auditors' report.

City of Story City

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Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Story City, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Story City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items III-B-04, III-C-04, III-E-04, and III-H-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Story City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Story City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. The prior year reportable condition has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Story City and other parties to whom the City of Story City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Story City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 15, 2004
Ames, Iowa

City of Story City

Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Story City
Schedule of Findings
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-04 Invoices – Invoices were not properly cancelled to prevent reuse.

Recommendation – The City should mark invoices “paid” to prevent duplicate payments from happening.

Response – We will do so.

Conclusion – Response accepted.

City of Story City
Schedule of Findings
Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004. However, one of the City's depositories is not included on the City's depository resolution.

Recommendation – The City should approve a new resolution that includes all depositories.

Response – We will do so.

Conclusion – Response accepted.

III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the culture and recreation, general government, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do so.

Conclusion – Response accepted.

III-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursements noted were for refreshments.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted

City of Story City

Schedule of Findings

Year ended June 30, 2004

III-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|--------------------------------------|----------------------------------|--------|
| Jeffrey Wirth, Employee | Services | \$ 950 |
| Brian Haffner, Employee | Purchase of used air conditioner | 25 |
| Dena Nichols, Employee | Purchase of used air conditioner | 25 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the above individuals do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transactions with the two employees for the purchase of air conditioners do not appear to represent a conflict of interest since they were entered into through competitive bidding.

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the City's investment policy states that the Treasurer and all City employees should be bonded for \$500,000, but none are.

Recommendation – The City should revise their employee bond to comply with their investment policy.

Response – We will amend the investment policy to comply.

Conclusion – Response accepted.

III-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-04 Financial Condition – The Capital Projects, Jacobson Trail Fund had a deficit balance at June 30, 2004 of \$53,719.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We are awaiting the allocation of the grant funding for the project.

Conclusion – Response accepted.

III-I-04 Notes – The resolution authorizing the issuance of the \$1,385,000 general obligation notes require the City to establish a debt service sinking fund where the proceeds, interest earned on the proceeds and taxes levied should be posted. As of June 30, 2004, this has not been done.

Recommendation – The City should establish the required fund.

City of Story City
Schedule of Findings
Year ended June 30, 2004

Response – We will do so.

Conclusion – Response accepted.

- III-J-04 Outstanding Checks – Unclaimed property per Chapter 556.1(10) of the Code of Iowa has not been reported to the State Treasurer as required

Recommendation – The City should comply with Chapter 556.1(10) of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

- III-K-04 Cemetery Perpetual Care Interest – Interest earned on a Cemetery Perpetual Care Fund certificate of deposit was not recorded in the General Fund as required by Chapter 566.16 of the Code of Iowa.

Recommendation – The City should transfer the interest earned during fiscal year 03-04 to the General Fund and only record all future cemetery perpetual care interest in the General Fund.

Response – We will do so.

Conclusion – Response accepted.

- III-L-04 Deposits and Investments – No instances of non-compliance with the City's investment policy were noted, except as described in IV-F-04.

- III-M-04 Sales Tax – The City is not properly assessing sales tax as required by Chapter 422 of the Code of Iowa.

Recommendation – The City should contact the Iowa Department of Revenue and Finance to determine the disposition of this matter.

Response – We will do so.

Conclusion – Response accepted.

- III-N-04 Form 1099's – The City did not properly prepare Form 1099's as required by the Internal Revenue Service.

Recommendation – The City should prepare 1099's as required.

Response – We will do so.

Conclusion – Response accepted.